



STRATEGIC MARKET ANALYSIS

India-EU Free Trade Agreement

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PREPARED BY

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EXECUTIVE SUMMARY

Transformative Development in India's Strategic Positioning

The India-EU Free Trade Agreement, formally concluded on January 27, 2026, represents a transformative development in India's strategic positioning and macroeconomic outlook. This agreement transcends conventional trade mechanics, it reflects India's emergence as a preferred alternative to China-centric supply chains and a critical economic partner for the EU amid global realignments.

97% Market Access Expansion

India secures preferential access across 97% of EU tariff lines (99.5% of trade value), with 70.4% achieving immediate duty elimination affecting 90.7% of India's exports

144 Services Liberalization

144 services subsectors access EU markets with enhanced mobility for 200,000+ professionals annually, particularly benefiting IT/ITeS and professional services sectors

★ Sectoral Winners

Textiles, Chemicals, Capital goods, and Shipbuilding positioned for structural growth; automobiles face managed competition with ancillary benefits

↗ Structural Tailwinds

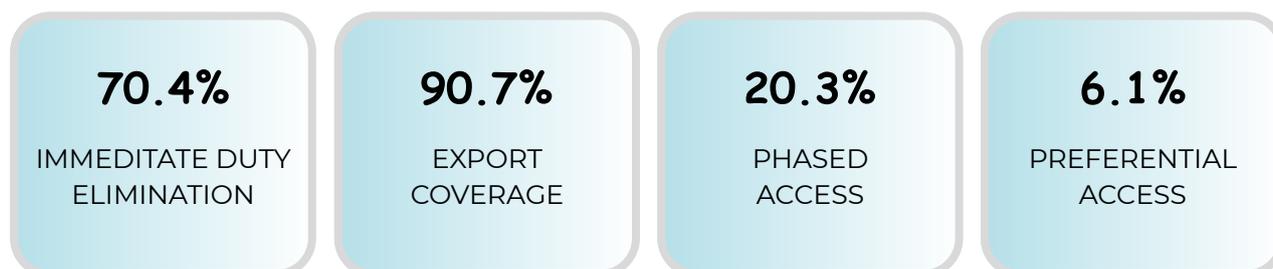
The agreement leverages India's cost advantages, demographic dividend, and growing manufacturing ecosystem while supporting the government's Make in India initiative

Near-term volatility in traditional export segments offset by medium-term structural gains across technology-intensive and capital-goods sectors.

Agreement Architecture and Market Access Framework

1.1 India's Market Access Gains

The FTA architecture reflects India's strengthened negotiating position. India secures:



- ▶ **Immediate Duty Elimination (70.4% of tariff lines):** Covering 90.7% of exports including textiles, leather, footwear, gems, and jewelry. These represent labor-intensive sectors where India maintains structural competitive advantages
- ▶ **Phased Zero-Duty Access (20.3% of tariff lines):** Over 3-5 years for marine products, processed foods, and arms/ammunition, representing 2.9% of export value. This staggered approach permits domestic supply-chain adjustment
- ▶ **Preferential Access (6.1% of tariff lines):** Through tariff reductions and Tariff Rate Quotas (TRQs) for poultry, preserved vegetables, bakery items, automotive (250,000 units annually at 10% duty), and select seafood categories

1.2 India's Tariff Commitments

India's reciprocal commitments demonstrate strategic selectivity:

- ▶ **Broad Coverage (92.1% of tariff lines):** Accounting for 97.5% of EU export value
- ▶ **Immediate Elimination (49.6% of tariff lines):** Affecting machinery, electrical equipment, chemicals, pharmaceuticals, and medical instruments
- ▶ **Phased Reduction (39.5%):** Over 5, 7, and 10-year staging periods, providing adjustment runway for domestic manufacturers
- ▶ **Protected Segments:** Motor vehicles (tariff floor at 10%), select fruits (apples, pears, kiwis under TRQs) maintain residual protection

“The phased reduction framework on machinery and capital goods imports, where current tariffs reach 30-40% creates a transparent medium-term cost reduction pathway for domestic manufacturers and assembly operations.

1.3 Trade Baseline Context

Understanding current trade patterns is essential for impact assessment:

Metric	FY25 Value	Market Share
India's exports to EU	US \$76 billion	17% of total Indian exports
India's imports from EU	US \$26 billion	8.4% of total Indian imports
Trade surplus (EU perspective)	US \$15 billion	Structural surplus with India
India's rank as EU import source	7th globally	2.9% of total EU imports

The EU is India's second-largest export destination (after US at 20%), while representing the 4th-largest import source (after China, Russia, UAE).

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Sectoral Impact Assessment and Investment Thesis

2.1 Chemicals

UNAMBIGUOUS POSITIVE

INVESTMENT THESIS : Structural Supply Diversification Play

Chemicals represents the clearest sectoral beneficiary, with 97.5% of India's chemical export basket achieving duty-free access into a €500 billion market.

Key Supporting Factors:

- ▶ **Market Dynamics:** India currently contributes ~5% to EU chemical imports, growing at 23-26% CAGR over 3 years, outpacing China's 10-14% CAGR. EU chemical imports from India-China combined grew 239% CAGR (vs. 10-14% decade average)
- ▶ **Competitive Positioning:** Unlike Indonesia, Vietnam, and Taiwan, which dominate EU petrochemicals, India's strength in specialty chemicals, pharma intermediates, and fine chemicals aligns with EU demand patterns
- ▶ **Tariff Impact:** Current tariffs on chemicals reaching 22% will reduce to zero across nearly the entire export basket. For high-value exports (specialty and fine chemicals), this 22% tariff elimination translates directly to improved landed-cost competitiveness
- ▶ **Supply Chain Trends:** EU's strategic intent to reduce China exposure aligns precisely with India's capabilities in cost-competitive, quality chemical manufacturing

Downside Consideration:

EU environmental regulations (REACH, CLP) require ongoing compliance investments. Substance-by-substance registration may create barriers for smaller players, consolidating benefits toward established manufacturers

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2.2 Textiles and Apparel

Medium-Term Structural Tailwind

INVESTMENT THESIS : China-Plus-One Sourcing Accelerant

Zero duty access on textiles, apparel, footwear, leather, and handicrafts activates the "China-Plus-One" supply-chain diversification strategy where global buyers reduce China concentration.

Structural Advantages:

- ▶ **Input Cost Position:** India's integrated value chain—from cotton cultivation through finished apparel, provides 15-20% landed-cost advantage versus competing origins
- ▶ **Scale Constraints Elsewhere:** Capacity saturation in Vietnam, Pakistan, and Sri Lanka, combined with Bangladesh's recent geopolitical disruptions, leaves India as the primary scalable alternative
- ▶ **Market Dynamics:** India currently holds ~5% of global textile trade (US \$38 billion annually). Potential to reach US \$100 billion reflects realistic ambition given EU market opening alone represents US \$30+ billion opportunity
- ▶ **Tariff Benefit:** Phased elimination of EU tariffs (previously 5-15% on textiles) improves price competitiveness at retail level, accelerating volume growth

Investment Opportunity:

The FTA activates a structural multi-year narrative:

Timeline	Volume Impact	Margin Impact	Index	Beneficiary Type
FY26 (Announcement)	+5-8%	Flat	Index	Announcement premium
FY27-28	+15-22%	+50-80 bps	Volume ramp	Home textiles, apparels
FY29+	+22-35%	Normalize	Structural	Integrated players

Risk Factor:

Non-tariff barriers (labor standards, environmental compliance) remain material. EU's due diligence requirements on supply-chain transparency may create friction for non-organized players.

2.3 Automobiles and Ancillaries

Selective Beneficiary Story

INVESTMENT THESIS :: Component Export Thesis; Luxury Segment Headwind

The automotive sector presents bifurcated outcomes:

Finished Vehicles (Negative):

- ▶ Import duty reduction from 110% to 10% (on quota of 250,000 units annually) exposes domestic OEMs to luxury segment competition
- ▶ Estimated impact: Margin pressure of 150-250 bps for luxury/premium segments (e.g., BMW, Mercedes, Audi local assembly)
- ▶ EV protection (speculated 5-year exemption) provides medium-term cushion but not confirmed

Ancillaries & Components (Positive):

- ▶ Lower export duties on auto components combined with tariff elimination on EU machinery inputs reduce manufacturing costs
- ▶ Technology transfer opportunities from EU OEMs establishing regional component sourcing hubs improves long-term ecosystem
- ▶ India's cost position (30-40% labor cost advantage) and established engineering capabilities position component manufacturers favorably
- ▶ Estimated benefit: Margin expansion of 100-150 bps for organized tier-1 suppliers; volume growth acceleration of 18-24% annually

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2.4 Pharmaceuticals

Cautious Optimism on CDMO Opportunity

INVESTMENT THESIS : China+1 Manufacturing Plays; Generic Space Remains Challenged

Near-Term Dynamics (FY26-27):

Pharmaceuticals rank as NEUTRAL in the near term despite duty elimination on 11% tariff lines (targeted toward bulk drugs and formulations).

Structural Constraints:

- ▶ **Generic Pricing Environment:** EU maintains strict austerity measures limiting pricing power. Indian generics have not focused on EU markets precisely due to pricing constraints. Tariff reduction (11% to 0%) does not alter underlying price pressure
- ▶ **Regulatory Timelines:** EU drug approvals require 3-4 year cycles post-filing. Current tariff benefit acceleration requires 2-3 year regulatory lead time before supply materialization
- ▶ **China CDMO Opportunity (Medium-term):** The EU represents the largest global pharmaceutical manufacturing hub. India's positioning as CDMO alternative to China gains appeal given geopolitical uncertainties and tariff advantages

Key Catalyst

China+1 strategy adoption by major EU pharma companies represents 2-3 year forward-looking catalyst, not immediate revenue driver.

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2.5 Capital Goods and Industrial Machinery

Structural Long-Term Winner

INVESTMENT THESIS : India's Manufacturing Ecosystem Gains Competitive Input Cost Advantage

Capital goods emerges as a medium-term structural positive given progressive tariff elimination on machinery (currently up to 30-40% tariffs).

Dual Impact Mechanism:

- ▶ **Export Competitiveness:** Tariff elimination on EU machinery imports reduces India-manufactured capital equipment costs by 8-12% landed-cost basis, expanding addressable markets
- ▶ **Input Cost Advantage:** Indian manufacturers of industrial machinery, turbines, boilers, and grid systems benefit from cheaper EU-sourced components, improving competitive positioning globally
- ▶ **Europe's Energy Transition Capex Cycle:** EU's accelerating energy transition and grid modernization represents structural capex demand through 2035, perfectly aligned with India's machinery export positioning

2.6 Shipbuilding and Ship Repair

Niche Positive

INVESTMENT THESIS : Competitiveness Enhancement Through Input Cost Reduction

Tariff reduction/elimination on critical marine equipment (engines, propulsion systems, pumps, valves, electrical systems) from EU suppliers improves Indian shipyards' cost position.

Specific Benefits:

- ▶ Build and refitting costs reduction of 6-10% through cheaper EU inputs
- ▶ Improves competitive positioning in global commercial shipbuilding and ship-repair/MRO markets
- ▶ Increased investment visibility attracts EU partnerships and green shipping technology collaboration

Market Size Context:

Global commercial shipbuilding represents US \$50 billion+ market; ship repair/MRO adds US \$30+ billion. India currently captures 3-4% of global ship repair market, expandable to 5-7% with cost-competitiveness improvement.

2.7 Defence, Alcobev, and Consumer Discretionary

Nuanced Outcomes

Defence Equipment and Shipbuilding

Assessment: Neutral to Positive (Structural, Not Immediate)

Defence procurement remains subject to government controls and security considerations—the FTA does not directly enable procurement expansion. However, tariff elimination on dual-use electronics, propulsion systems, and advanced materials from EU suppliers provides long-term input cost benefits supporting India's defence manufacturing ecosystem.

Investment Implication:

Defence equipment manufacturers benefit indirectly through cost efficiency improvements rather than direct demand creation. Medium-term structural positive but requires 3-5 year horizon.

Alcoholic Beverages

Assessment: Near-term Margin Pressure; Medium-term Premiumization Positive

Tariff reductions (wines 150%→75%→20%, beer 110%→50%, spirits 150%→40%) expose Indian alcobev to EU competition.

Dual Dynamics:

- ▶ Near-Term Headwind: Increased competitive intensity for domestic mid-premium players lacking strong brand equity. Price compression risk of 5-15% for affected segments
- ▶ Medium-Term Opportunity: Lower import tariffs accelerate premiumization, expanding market size. Indian premium spirits (single malts, craft gins, rums) gain EU market access with improved trade barriers, offsetting domestic margin pressure

Current Market Size Context:

India exported US \$65 million spirits and US \$1.5 million wines to EU (FY24), versus EU imports to India of US \$412 million wines and US \$22 million spirits. India's alcobev market represents US \$50 billion, leaving significant expansion headroom.

Consumer Durables, Electricals, Building Materials

Assessment: Largely Neutral

Insignificant EU exposure in white goods, wires/cables, and FMEG segments. Slight positive impact for select building materials players where design paper rolls (predominantly EU-sourced) benefit from tariff elimination.

Macroeconomic and Capital Flow Implications

3.1 GDP Growth Contribution

The FTA positions India for incremental GDP growth contribution through:

- ▶ **Export Volume Expansion:** Conservative estimate suggests 4-6% incremental export growth (above baseline) over FY26-29 period, contributing 0.4-0.6% to GDP growth
- ▶ **FDI Inflows:** Improved market access and supply-chain certainty attract Foreign Direct Investment in export-oriented manufacturing, estimated at US \$3-5 billion annual incremental inflows
- ▶ **Employment Generation:** Manufacturing export expansion generates 500,000-800,000 incremental skilled and semi-skilled employment across textiles, chemicals, capital goods, and IT services

3.2 Currency and Trade Deficit Dynamics

Positive Impact on Current Account

- ▶ Export earnings increase of US \$8-12 billion annually (medium-term run-rate)
- ▶ Helps offset rising import costs from machinery, minerals, and hydrocarbon
- ▶ Potential for current account deficit improvement of 0.3-0.5% of GDP

Rupee Implication:

Enhanced export earnings provide structural support to rupee valuation, offering hedge against import inflation. Estimated long-term rupee appreciation potential of 2-4% versus USD baseline.

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3.3 Sector-Level Capital Allocation Implications

Sector	Assessment	Investment Horizon
Chemicals	Highly Positive	FY26-29
Textiles	Positive	FY26-30
Capital Goods	Positive	FY27-29
Automobiles (Ancillaries)	Positive	FY26-28
Automobiles (OEM)	Negative	FY26-28
Pharmaceuticals	Neutral/Positive (CDMO)	FY27+
Shipbuilding	Positive	FY26-28
AlcobeV	Mixed	FY26-30
Defence	Neutral/Positive (Structural)	FY28+
Consumer Durables	Neutral	No Change

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Risk Factors and Mitigation Strategies

4.1 Implementation and Regulatory Risks

Risk Factor 1:

Non-Tariff Barriers (NTBs) and Regulatory Compliance

The FTA's tariff elimination does not automatically eliminate non-tariff barriers including:

- ▶ Environmental regulations (REACH, GDPR compliance for chemicals and electronics)
- ▶ Labor standards verification (ILO conventions, wage compliance)
- ▶ Quality certifications (ISO, sector-specific approvals)

Risk Factor 2:

Renegotiation Clauses and Political Risk

Trade agreements remain subject to political review cycles. EU political fragmentation (migration, fiscal austerity) could delay ratification or implementation.

4.2 Sectoral Execution Risks

- ▶ **Textiles Execution Risk:** Capacity expansion requires 2-3 year lead times; execution delays could miss EU demand windows
- ▶ **Chemicals Risk:** EU market consolidation favors large-scale players; smaller players face margin pressure despite tariff benefits
- ▶ **Automobiles Risk:** EV protection status remains undefined; possible extension of protection creates false investment thesis
- ▶ **Mitigation Strategy:** Diversified exposure across multiple winning sectors reduces binary execution risk.

4.3 Global Macro Headwinds

- ▶ **EU Economic Slowdown Risk:** Prolonged EU recession (given geopolitical tensions) could depress import demand below FTA-optimistic scenarios
- ▶ **Current EU Economic Context:** 2024 EU growth remains challenged; tariff benefits may not materialize if EU demand remains weak
- ▶ **Mitigation:** Select sectors with counter-cyclical demand profiles (chemicals for manufacturing recovery, capital goods for infrastructure spend)

Investment Thesis Summary and Recommended Action Plan

5.1 Core Investment Opportunity

The India-EU FTA represents a 5-7 year structural tailwind across multiple export-oriented sectors. Unlike short-term policy shifts, this agreement formalizes competitive positioning improvements through:

- ▶ **Tariff Arbitrage:** 15-25% tariff elimination improves competitive positioning across labor-intensive and specialty manufacturing sectors
- ▶ **Supply-Chain Diversification:** Global buyers' China-Plus-One strategies accelerate India adoption
- ▶ **Strategic Partnership Deepening:** FTA signals EU's commitment to India as long-term economic partner beyond transactional trade

Luxury Automobile OEMs face near-term margin pressure from competitive imports. Mid-Premium Alcobev plays experience margin compression from tariff-driven import competition.

Implementation Timeline and Key Catalysts

- **Q1 FY26 (Jan-Mar)**
FTA details finalized; industry consultations begin
- **Q2 FY26 (Apr-Jun)**
EU Parliament ratification process
- **H2 FY26 (Jul-Dec)**
Effective implementation begins (phased tariff elimination)
- **FY27-28**
Phase 2 tariff elimination (3-5 year categories)
- **FY29+**
EU Parliament ratification process

The India-EU FTA transcends conventional trade mechanics to represent a structural realignment in global supply chains with India positioned as a preferred manufacturing and services partner. For wealth managers and institutional investors, the agreement activates a 5-7 year earnings expansion narrative across export-oriented sectors—particularly chemicals, textiles, capital goods, and auto ancillaries.

Strategic Investment Philosophy:

Rather than trading short-term volatility, the optimal positioning emphasizes quality companies in winning sectors with:

- ▶ Established competitive cost advantages
- ▶ Proven execution capabilities in export markets
- ▶ Scalable capacity for demand expansion
- ▶ Management clarity on EU market opportunities

The confluence of tariff elimination, supply-chain diversification (China+1), EU strategic partnership intent, and India's demographic/cost advantages creates a low-risk, high-return opportunity for the 3-7 year investment horizon

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